

Condensed Consolidated Interim Financial Statements of

**POLLARD BANKNOTE
LIMITED**

(unaudited)

Nine months ended September 30, 2021

These condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent external auditors, KPMG LLP.

Pollard Banknote Limited
Condensed Consolidated Statements of Financial Position
(In thousands of Canadian dollars)
(unaudited)

	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash	\$ 10,250	\$ 1,888
Restricted cash	17,339	19,058
Accounts receivable	75,201	66,037
Inventories (note 6)	45,246	46,620
Prepaid expenses and deposits	7,964	6,707
Income tax receivable	2,513	338
Total current assets	158,513	140,648
Non-current assets		
Property, plant and equipment	100,640	96,396
Equity investment (note 7)	654	881
Goodwill	107,676	89,276
Intangible assets	94,552	74,146
Deferred income taxes	–	3,220
Total non-current assets	303,522	263,919
Total assets	\$ 462,035	\$ 404,567
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 88,222	\$ 59,433
Dividends payable	1,077	1,028
Income taxes payable	946	4,941
Contract liabilities (note 8)	486	379
Current portion lease liabilities	5,317	5,109
Total current liabilities	96,048	70,890
Non-current liabilities		
Long-term debt (note 9)	115,838	131,080
Other non-current liabilities	1,613	1,322
Pension liability (note 10)	19,455	36,370
Lease liabilities	9,929	11,832
Deferred income taxes	14,682	10,690
Total non-current liabilities	161,517	191,294
Shareholders' equity		
Share capital (note 11)	149,003	109,007
Reserves	(423)	2,563
Retained earnings	55,890	30,813
Total shareholders' equity	204,470	142,383
Total liabilities and shareholders' equity	\$ 462,035	\$ 404,567

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Income (Loss)
(In thousands of Canadian dollars, except for share amounts)
(unaudited)

	Three months ended September 30, 2021		Three months ended September 30, 2020		Nine months ended September 30, 2021		Nine months ended September 30, 2020	
Sales (note 8)	\$	116,881	\$	116,644	\$	342,477	\$	310,399
Cost of sales		95,422		88,899		273,922		242,175
Gross profit		21,459		27,745		68,555		68,224
Administration		11,184		10,291		34,308		30,002
Selling		4,160		3,770		11,703		10,917
(Gain) loss on equity investment (note 7)		(2,565)		(802)		(9,105)		25
Other (income) expenses (note 12)		4,265		(2,169)		2,836		(8,659)
Income from operations		4,415		16,655		28,813		35,939
Finance costs (note 13)		2,930		1,008		5,675		9,940
Finance income (note 13)		–		(1,816)		(750)		(3,789)
Income before income taxes		1,485		17,463		23,888		29,788
Income taxes (note 14)								
Current		4,190		3,952		13,253		7,991
Deferred (reduction)		(2,087)		359		(3,880)		693
		2,103		4,311		9,373		8,684
Net income (loss)	\$	(618)	\$	13,152	\$	14,515	\$	21,104
Net income (loss) per share (basic) (note 15)	\$	(0.02)	\$	0.51	\$	0.54	\$	0.82
Net income (loss) per share (diluted) (note 15)	\$	(0.02)	\$	0.51	\$	0.54	\$	0.82

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Comprehensive Income
(In thousands of Canadian dollars)
(unaudited)

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net income (loss)	\$ (618)	\$ 13,152	\$ 14,515	\$ 21,104
Other comprehensive income (loss)				
Items that are or may be reclassified to profit and loss				
Foreign currency translation differences – foreign operations	3,640	(2,694)	(2,986)	3,187
Items that will never be reclassified to profit and loss				
Defined benefit plans remeasurements, net of income tax (note 10)	1,853	35	13,547	(5,817)
Other comprehensive income (loss)	5,493	(2,659)	10,561	(2,630)
Comprehensive income	\$ 4,875	\$ 10,493	\$ 25,076	\$ 18,474

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)
(unaudited)

For the nine months ended September 30, 2021

	Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2020	\$ 109,007	2,563	30,813	142,383
Net income	–	–	14,515	14,515
Other comprehensive income (loss)				
Foreign currency translation differences – foreign operations	–	(2,986)	–	(2,986)
Defined benefit plans remeasurements, net of income tax	–	–	13,547	13,547
Total other comprehensive income (loss)	\$ –	(2,986)	13,547	10,561
Total comprehensive income (loss)	\$ –	(2,986)	28,062	25,076
Issue of common shares (note 11)	\$ 32,844	–	(81)	32,763
Issue of common shares related to acquisition of Next Generation Lotteries AS (note 5)	7,152	–	–	7,152
Share based compensation	–	–	325	325
Dividends (note 11)	–	–	(3,229)	(3,229)
Balance at September 30, 2021	\$ 149,003	(423)	55,890	204,470

For the nine months ended September 30, 2020

	Share capital	Translation reserve	Retained earnings	Total equity
Balance at December 31, 2019	\$ 108,642	5,705	8,937	123,284
Net income	–	–	21,104	21,104
Other comprehensive income (loss)				
Foreign currency translation differences – foreign operations	–	3,187	–	3,187
Defined benefit plans remeasurements, net of income tax	–	–	(5,817)	(5,817)
Total other comprehensive income (loss)	\$ –	3,187	(5,817)	(2,630)
Total comprehensive income	\$ –	3,187	15,287	18,474
Share based compensation	\$ –	–	312	312
Dividends	–	–	(3,075)	(3,075)
Balance at September 30, 2020	\$ 108,642	8,892	21,461	138,995

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited
Condensed Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)
(unaudited)

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Cash increase (decrease)		
Operating activities		
Net income	\$ 14,515	\$ 21,104
Adjustments		
Income taxes	9,373	8,684
Amortization and depreciation	28,788	23,727
Interest expense	3,421	3,857
Unrealized foreign exchange (gain) loss	(297)	1,601
(Gain) Loss on equity investment (note 7)	(9,105)	25
Pension expense	7,545	5,942
Contingent consideration adjustment	6,005	–
Interest paid	(3,506)	(3,756)
Income tax paid	(17,053)	(4,030)
Pension contribution	(5,935)	(5,554)
Change in non-cash operating working capital (note 16)	19,544	6,649
	53,295	58,249
Investing activities		
Additions to property, plant and equipment	(14,500)	(9,869)
Charitable gaming asset purchase	–	(4,895)
Acquisition of mkodo Limited	–	(17,447)
Acquisition of Next Generation Lotteries AS (note 5)	(40,748)	–
Equity distribution (note 7)	9,315	167
Additions to intangible assets	(8,376)	(4,848)
	(54,309)	(36,892)
Financing activities		
Proceeds from issue of share capital	32,763	–
Repayments of long-term debt	(15,048)	(11,000)
Change in other non-current liabilities	313	68
Lease principal payments	(4,694)	(3,791)
Deferred financing charges paid	(87)	(80)
Dividends paid	(3,180)	(3,075)
	10,067	(17,878)
Foreign exchange gain (loss) on cash held in foreign currency	(691)	384
Change in cash position	8,362	3,863
Cash position, beginning of period	1,888	7,448
Cash position, end of period	\$ 10,250	\$ 11,311

See accompanying notes to condensed consolidated interim financial statements.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

1. Reporting entity:

Pollard Banknote Limited ("Pollard") was incorporated under the laws of Canada on March 26, 2010. The address of Pollard's registered office is 140 Otter Street, Winnipeg, Manitoba, Canada, R3T 0M8.

The condensed consolidated interim financial statements of Pollard as at and for the nine months ended September 30, 2021, comprise Pollard, Pollard's subsidiaries and its interest in other entities. Pollard is primarily involved in the manufacture and sale of lottery and gaming products.

The controlling entity of Pollard is Pollard Equities Limited ("Equities"), a privately held company. Equities owns approximately 64.3% of Pollard's outstanding shares.

Pollard's consolidated financial statements as at and for the year ended December 31, 2020, are available at www.sedar.com.

The operations of Next Generation Lotteries AS ("NGL"), acquired during the first quarter of 2021, are included in the condensed consolidated interim financial statements from January 14, 2021 (note 5).

The overall impact of seasonality does not have a significant impact on the operations of Pollard.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting* and do not include all of the information required for full annual consolidated financial statements.

On November 10, 2021, Pollard's Board of Directors approved these condensed consolidated interim financial statements.

(b) Use of estimates and judgments:

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying Pollard's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2020.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

3. Significant accounting policies:

Except for the accounting policies described below, these condensed consolidated interim financial statements follow the same significant accounting policies as described and used in Pollard's consolidated financial statements for the year ended December 31, 2020 and should be read in conjunction with these statements.

- (a) Amendments to International Financial Reporting Standards ("IFRS") 9 – interest rate benchmark reform:

In August 2020, the International Accounting Standards Board ("IASB") finalized its response to the ongoing reform of inter-bank offered rates and other interest rate benchmarks by issuing a package of amendments to IFRS standards. The amendments mainly relate to changes to contractual cash flows and clarify that a company will not have to derecognize the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the changes to the alternative benchmark rate. The amendments are effective for annual periods beginning on or after January 1, 2021. Pollard has determined that this amendment did not have a material impact on its condensed consolidated interim financial statements.

4. Future accounting standards:

- (a) Amendments to IAS 1 – classification of liabilities as current or non-current:

In January 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to clarify the classification of liabilities as current or non-current. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. The 2020 amendments also clarify how a company classifies a liability that includes a counterparty conversion option. The amendments are effective for annual periods beginning on or after January 1, 2024. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

- (b) Amendments to IAS 16 – proceeds before intended use:

In May 2020, the IASB issued *Property, Plant and Equipment Proceeds before Intended Use (Amendments to IAS 16)*. The amendments provide guidance on the accounting for sale proceeds and related production costs for items a company produces and sells in the process of making an item of property, plant and equipment available for its intended use. The amendments are effective for annual periods beginning on or after January 1, 2022. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

4. Future accounting standards (continued):

- (c) Amendments to IAS 37 – cost of fulfilling a contract:

In May 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*. The amendments address the fact that IAS 37 does not specify which costs are included as a cost of fulfilling a contract when determining whether a contract is onerous. The amendments clarify that costs of fulfilling a contract comprise both the incremental costs and an allocation of direct costs. The amendments are effective for annual periods beginning on or after January 1, 2022. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

- (d) Amendments to IAS 1 and IFRS Practice Statement 2 – disclosure initiative – accounting policies:

In February 2021, the IASB issued *Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. The amendments help companies provide useful accounting policy disclosures. The key amendments include requiring companies to disclose their material accounting policies rather than significant accounting policies, clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

- (e) Amendments to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction:

In May 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*. The amendments narrow the scope of the initial recognition exemption ("IRE") so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The amendments are effective for annual periods beginning on or after January 1, 2023. Pollard is currently assessing the impact of the amendment on its condensed consolidated interim financial statements.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

5. Acquisitions:

(a) Compliant Gaming, LLC:

On December 30, 2020, Pollard acquired 100% of the equity of Compliant Gaming, LLC ("Compliant"), a leading provider of electronic pull-tab gaming systems and products to the charitable gaming market. The purchase price was funded by proceeds from Pollard's credit facility and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at December 30, 2020, the acquisition date.

Cash paid	\$	24,623
Contingent consideration		5,239
Total consideration	\$	29,862
Accounts receivable	\$	46
Prepaid expenses and deposits		44
Property, plant and equipment		453
Accounts payable and accrued liabilities		(155)
Contract liabilities		(110)
Net tangible assets acquired	\$	278
Customer relationships	\$	13,121
Game library		2,907
Software		1,398
Identifiable intangible assets acquired	\$	17,426
Goodwill acquired	\$	12,158

The goodwill acquired is largely attributable to the assembled workforce, market share and the expected revenue synergies and cost savings after integration of Compliant with Pollard. This goodwill is expected to be deductible for tax purposes.

During the measurement period, the closing working capital amount was finalized. Adjustments to the purchase price and purchase price allocation were required, resulting in a \$274 increase in cash paid, a \$37 increase in the customer relationships and a \$237 increase to goodwill.

Acquisition costs related to the Compliant purchase in the nine months ended September 30, 2021, were \$61. These costs were included in administration expenses.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

5. Acquisitions (continued):

Contingent consideration, based on achievement of certain earnings before interest, income taxes, depreciation and amortization ("EBITDA") targets, may be paid to the vendor. The earn-out is based on Compliant's achievement of certain EBITDA targets during 2021 and 2022. The potential payment under the earn-out is unlimited. During the nine months ended September 30, 2021, Pollard reassessed Compliant's progress towards achievement of the 2021 and 2022 EBITDA targets, which resulted in an adjustment to increase the fair value of the liability by \$6,005. This increase is due to Compliant achieving stronger EBITDA during the earn-out period relative to original expectations. As at September 30, 2021, Pollard has accrued \$10,701 within current liabilities and \$1,337 within non-current liabilities relating to the contingent consideration.

At September 30, 2021, the acquisition accounting was finalized.

(b) Next Generation Lotteries AS:

On January 14, 2021, Pollard acquired 100% of the equity of Next Generation Lotteries AS ("NGL"), a leading provider of lottery management and iLottery technology. The purchase price was funded by proceeds from Pollard's credit facility and cash on hand. The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities have been based on management's best estimates and valuation techniques as at January 14, 2021, the acquisition date.

Cash paid, net of cash acquired of \$9,015 and debt assumed of \$2,382	\$	40,748
Issuance of common shares		7,152
Total consideration	\$	47,900
Accounts receivable	\$	6,145
Inventories		1,096
Prepaid expenses and deposits		1,002
Property, plant and equipment		3,281
Income tax receivable		1,119
Deferred tax liability		(6,460)
Accounts payable and accrued liabilities		(3,342)
Net tangible assets acquired	\$	2,841
Technology	\$	22,653
Game library		2,984
Identifiable intangible assets acquired	\$	25,637
Goodwill acquired	\$	19,422

The goodwill acquired is largely attributable to the assembled workforce and the expected revenue synergies and cost savings after integration of NGL with Pollard. This goodwill is not expected to be deductible for tax purposes. The fair values of identifiable assets and liabilities acquired are preliminary and are subject to change if new information becomes available during the measurement period.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

5. Acquisitions (continued):

During the measurement period, new information became available regarding the existence and valuation of certain receivables, and the ability to utilize the future tax recoverable recognized as at the acquisition date. Adjustments to the preliminary purchase price allocation were required, resulting in a \$545 increase to the cash paid, a \$545 increase in accounts receivable, a \$735 increase in deferred tax liability and a \$735 increase to goodwill.

During the measurement period, the closing working capital amount was finalized. Adjustments to the purchase price and purchase price allocation were required, resulting in a \$8 increase in cash paid, a \$1 increase in accounts receivable and a \$7 increase to goodwill.

Acquisition costs related to the NGL purchase in the nine months ended September 30, 2021, were \$897. These costs were included in administration expenses.

If NGL had been acquired on January 1, 2021, incremental revenue of \$458 and net loss of \$374, after depreciation and amortization of the fair values of identifiable net assets acquired, would have been recognized in the nine months ended September 30, 2021.

Included in the purchase agreement is the opportunity for contingent consideration, based on achievement of certain contribution margin targets during 2021. The maximum amount of contingent consideration payable is \$5,880 (€4,000). As at September 30, 2021, Pollard has not accrued any amounts relating to this contingent consideration as the contribution margin targets are currently not expected to be met.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

6. Inventories:

	September 30, 2021	December 31, 2020
Raw materials	\$ 18,704	\$ 16,756
Work-in-process	2,611	2,209
Finished goods	23,931	27,655
	\$ 45,246	\$ 46,620

During the third quarter of 2021, Pollard recorded inventory write-downs of \$253, representing an increase in the obsolescence reserves, and inventory write-downs of \$17 due to changes in foreign exchange rates. During the nine months ended September 30, 2021, Pollard recorded inventory write-downs of \$752 representing an increase in the obsolescence reserves, and inventory write-downs of \$6 due to changes in foreign exchange rates.

During the third quarter of 2020, Pollard recorded inventory write-downs of \$190, representing an increase in the obsolescence reserves, and inventory write-downs of \$4 due to changes in foreign exchange rates. During the nine months ended September 30, 2020, Pollard recorded inventory write-downs of \$777 representing an increase in the obsolescence reserves, and inventory write-downs of \$26 due to changes in foreign exchange rates.

The cost of sales reflects the costs of inventory including direct material, direct labour and manufacturing overheads.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

7. Equity investment:

	Nine months ended		Nine months ended	
	September 30, 2021		September 30, 2020	
Interest in joint venture				
Balance, beginning of period	\$	881	\$	1,161
Distribution		(9,315)		(167)
Equity income (loss)		9,105		(25)
Effects of movements in exchange rates		(17)		31
Balance, end of period	\$	654	\$	1,000

Pollard, in conjunction with NeoGames US, LLP, operates NeoPollard Interactive ("NPI"). The entity was established to provide iLottery services in the United States and Canada, excluding the State of Michigan.

Pollard and Neogames S.A. operate the iLottery business for the Michigan Lottery under a separate joint operating agreement. Pollard recognizes its interest in the joint operation by including its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly and its share of revenue and expenses.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

8. Revenue and contract balances:

In the following tables, revenue from contracts with customers is disaggregated by geographical segment and product line:

Revenue – geographical segment	Nine months ended September 30, 2021		
	Lotteries and charitable gaming	Diamond Game and Compliant	Total
Canada	\$ 58,804	\$ 1,758	\$ 60,562
United States	182,948	25,176	208,124
International	73,791	–	73,791
	\$ 315,543	\$ 26,934	\$ 342,477

Revenue – geographical segment	Nine months ended September 30, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Canada	\$ 55,220	\$ 3,091	\$ 58,311
United States	175,310	13,105	188,415
International	63,673	–	63,673
	\$ 294,203	\$ 16,196	\$ 310,399

Revenue – product lines	Nine months ended September 30, 2021		
	Lotteries and charitable gaming	Diamond Game and Compliant	Total
Lottery	\$ 270,722	\$ –	\$ 270,722
Charitable	44,821	–	44,821
eGaming systems	–	26,934	26,934
	\$ 315,543	\$ 26,934	\$ 342,477

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

8. Revenue and contract balances (continued):

Revenue – product lines	Nine months ended September 30, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Lottery	\$ 262,519	\$ –	\$ 262,519
Charitable	31,684	–	31,684
eGaming systems	–	16,196	16,196
	\$ 294,203	\$ 16,196	\$ 310,399

The following tables provide information about receivables, contract assets and contract liabilities from contracts with customers:

Contract balances	September 30, 2021	December 31, 2020
Trade receivables, which are included in accounts receivable	\$ 67,167	\$ 56,376
Contract assets, which are included in accounts receivable	5,164	6,643
Contract liabilities	486	379

Contract liabilities	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Balance, beginning of period	\$ 379	\$ –
Acquisition	–	278
Increases due to cash received	1,586	1,270
Revenue recognized during the period	(1,475)	(1,290)
Effect of movement in exchange rates	(4)	(5)
Balance, end of period	\$ 486	\$ 253

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

9. Long-term debt:

	September 30, 2021	December 31, 2020
Credit facility, interest of 1.5% to 2.7%, payable monthly, maturing 2022	\$ 116,017	\$ 131,365
Deferred financing charges, net of amortization	(179)	(285)
	\$ 115,838	\$ 131,080

(a) Credit facility:

Effective December 31, 2019, Pollard renewed its credit facility. The credit facility provides loans of up to \$190,000 for its Canadian operations and US\$14,000 for its U.S. subsidiaries. The credit facility also includes an accordion feature which can increase the facility by \$35,000. The borrowings for the Canadian operations can be denominated in Canadian or U.S. dollars, to a maximum of \$190,000 Canadian equivalent. Borrowings under the credit facility bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At September 30, 2021, the outstanding letters of guarantee drawn under the credit facility were \$70 (December 31, 2020 – \$712).

Included in the total credit facility balance is a U.S. dollar denominated balance of US\$37,400 (December 31, 2020 – US\$55,900). As of September 30, 2021, Pollard had unused credit facility available of \$91,693 (December 31, 2020 – \$75,745).

Under the terms and conditions of the credit facility agreement Pollard is required to maintain certain financial covenants including debt to income before interest, income taxes, amortization, depreciation and certain other items ("Adjusted EBITDA") ratios and certain debt service coverage ratios. As at September 30, 2021, Pollard was in compliance with all financial covenants.

Pollard's credit facility is secured by a first security interest in all of the present and after acquired property of Pollard. Under the terms of the agreement the facility is committed for a three-year period, renewable December 31, 2022. Principal payments are not required until maturity. The facility can be prepaid without penalties.

(b) Economic Development Canada ("EDC") facility:

Effective February 28, 2020, Pollard entered into an agreement with EDC to provide a €15,000 facility whereby Pollard can issue qualifying letters of credit against the EDC facility. The facility is guaranteed by a general indemnity from Pollard. As of September 30, 2021, the outstanding letters of credit drawn on this facility were \$11,059 (€7,523). As of December 31, 2020, the outstanding letters of credit drawn on this facility were \$10,960 (€7,048).

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

10. Pension liability:

During the three month period ended September 30, 2021, Pollard recorded a remeasurement gain of \$1,853 (net of \$690 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate and higher returns than expected on plan asset investments.

During the three month period ended September 30, 2020, Pollard recorded a remeasurement gain of \$35 (net of \$5 of income tax) on its defined pension plans. The remeasurement gain resulted from the higher returns than expected on plan assets investments, which was partially offset by a decrease in the discount rate.

During the nine month period ended September 30, 2021, Pollard recorded a remeasurement gain of \$13,547 (net of \$4,975 of income tax) on its defined pension plans. The remeasurement gain resulted from an increase in the discount rate and higher returns than expected on plan asset investments.

During the nine month period ended September 30, 2020, Pollard recorded a remeasurement loss of \$5,817 (net of \$2,093 of income tax) on its defined pension plans. The remeasurement loss resulted from a decrease in the discount rate, which was partially offset by a gain resulting from higher returns than expected on plan asset investments.

11. Share capital:

	Shares		Amount
Authorized			
Unlimited common shares			
Unlimited preferred shares			
Issued			
Balance at January 1, 2020	25,635,658	\$	108,642
Stock option exercises	71,250		365
Balance at December 31, 2020	25,706,908		109,007
Issue of common shares	933,800		32,405
Acquisition of NGL (note 5)	233,211		7,152
Stock option exercises	43,750		439
Balance at September 30, 2021	26,917,669	\$	149,003

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

11. Share capital (continued):

Issue of common shares

On February 9, 2021, Pollard announced that it had entered into an agreement with a syndicate of underwriters to purchase, on a bought deal basis, 812,000 common shares of Pollard at a price of \$36.95 per share. Pollard also granted the underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the offering, to purchase up to an additional 121,800 common shares. The offering, including the full over-allotment, closed on March 2, 2021. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 933,800 common shares was approximately \$34,504.

Stock option issuance

On May 13, 2021, the Board of Directors approved the award of 25,000 options to purchase common shares of Pollard for a member of senior management. The options were granted on May 31, 2021, and have a seven year term, vesting 25% per year over the first four years. The exercise price of \$61.13 was equal to the closing price of the common shares on May 28, 2021.

Dividends

Dividends are paid on the common shares within 15 days of the end of each quarter and are fully discretionary, as determined by the Board of Directors of Pollard.

On August 11, 2021, a dividend of \$0.04 per share was declared, payable on October 15, 2021, to the shareholders of record on September 30, 2021.

12. Other expense (income):

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Litigation settlement	\$ –	\$ –	\$ 2,520	\$ –
EBITDA support agreement	–	–	–	(1,000)
Canada emergency wage subsidy	(700)	(2,134)	(5,876)	(7,638)
Contingent consideration fair value adjustment (note 5)	4,915	–	6,005	–
Other (income) expenses	50	(35)	187	(21)
	\$ 4,265	\$ (2,169)	\$ 2,836	\$ (8,659)

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)
(unaudited)

12. Other expenses (income) (continued):

Litigation Settlement

On June 15, 2021, Pollard entered into an agreement for a one-time payment of \$2,520 to settle all aspects of a litigation related to a patent dispute relating to Pollard's instant ticket production.

13. Finance costs and finance income:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Finance costs				
Foreign exchange loss	\$ 1,718	\$ –	\$ 2,254	\$ 6,083
Interest	1,212	1,008	3,421	3,857
	\$ 2,930	\$ 1,008	\$ 5,675	\$ 9,940
Finance income				
Foreign exchange gain	\$ –	\$ 1,816	\$ 750	\$ 3,789
	\$ –	\$ 1,816	\$ 750	\$ 3,789

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

14. Income taxes:

		Three months ended September 30, 2021		Three months ended September 30, 2020
Reconciliation of effective tax rate				
Net income (loss) for the period		\$ (618)		\$ 13,152
Total income taxes		2,103		4,311
Income before income taxes		\$ 1,485		\$ 17,463
Income tax using Pollard's domestic tax rate	27.0%	\$ 401	27.0%	\$ 4,715
Effect of tax rates in foreign jurisdictions	(1)	(146)	(1.8%)	(321)
Non-deductible amounts	(1)	129	1.4%	241
Unrecognized non-capital losses	(1)	871	0.0%	–
Other items	(1)	554	0.0%	–
Effect of non-taxable items related to foreign exchange	(1)	294	(1.9%)	(324)
	(1)	\$ 2,103	24.7%	\$ 4,311
(1) Not meaningful				
Reconciliation of effective tax rate				
		Nine months ended September 30, 2021		Nine months ended September 30, 2020
Net income for the period		\$ 14,515		\$ 21,104
Total income taxes		9,373		8,684
Income before income taxes		\$ 23,888		\$ 29,788
Income tax using Pollard's domestic tax rate	27.0%	\$ 6,450	27.0%	\$ 8,043
Effect of tax rates in foreign jurisdictions	(3.6%)	(846)	(1.8%)	(525)
Non-deductible amounts	2.6%	628	1.8%	543
Unrecognized non-capital losses	9.3%	2,223	0.0%	–
Other items	3.2%	756	0.6%	158
Effect of non-taxable items related to foreign exchange	0.7%	162	1.6%	465
	39.2%	\$ 9,373	29.2%	\$ 8,684

Pollard Banknote Limited**Notes to Condensed Consolidated Interim Financial Statements (continued)***(In thousands of Canadian dollars, except where otherwise noted and for share amounts)*

(unaudited)

15. Net income per share:

	Three months ended September 30, 2021	Three months ended September 30, 2020
Net income (loss) attributable to shareholders for basic and diluted net income per share	\$ (618)	\$ 13,152
Weighted average number of shares (basic)	26,917,699	25,635,658
Weighted average impact of share options on issue	312,500	377,500
Weighted average number of shares (diluted)	27,230,169	26,013,158
Net income (loss) per share (basic)	\$ (0.02)	\$ 0.51
Net income per (loss) share (diluted)	\$ (0.02)	\$ 0.51

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net income attributable to shareholders for basic and diluted net income per share	\$ 14,515	\$ 21,104
Weighted average number of shares (basic)	26,685,150	25,635,658
Weighted average impact of share options on issue	314,100	387,207
Weighted average number of shares (diluted)	26,999,250	26,022,865
Net income per share (basic)	\$ 0.54	\$ 0.82
Net income per share (diluted)	\$ 0.54	\$ 0.82

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

16. Supplementary cash flow information:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Change in non-cash operating working capital:		
Accounts receivable	\$ (2,301)	\$ 28
Inventories	2,407	(1,638)
Prepaid expenses and deposits	(509)	1,389
Income taxes payable	(1,187)	(78)
Accounts payable and accrued liabilities	21,018	6,970
Contract liabilities	116	(22)
	\$ 19,544	\$ 6,649

17. Related party transactions:

Pollard Equities Limited and affiliates

During the quarter ended September 30, 2021, Pollard paid property rent of \$825 (2020 – \$854) and \$4 (2020 – \$nil) in plane charter costs to an affiliate of Pollard Equities Limited. During the nine months ended September 30, 2021, Pollard paid property rent of \$2,500 (2020 – \$2,567) and \$4 (2020 – \$118) in plane charter costs to an affiliate of Equities.

During the quarter, Equities paid Pollard \$18 (2020 – \$18) for accounting and administration fees and \$54 (2020 – \$54) during the nine months ended September 30, 2021.

At September 30, 2021, included in accounts payable and accrued liabilities is an amount owing to Equities and its affiliates for rent, expenses and other items of \$240 (December 31, 2020 – \$454).

Included within property, plant and equipment and lease liabilities on the condensed consolidated statements of financial position are right-of-use assets and corresponding liabilities for premises leased to Pollard from Equities. As at September 30, 2021, the net book value of the right-of-use assets was \$7,427 (December 31, 2020 – \$7,715) and the present value of the lease liabilities was \$7,535 (December 31, 2020 – \$7,887).

Neogames S.A. and affiliates

Pollard reimbursed operating costs and paid software royalties to its iLottery partner of \$3,345 (2020 – \$2,641) and \$10,050 (2020 – \$6,757) for the three and nine month periods ended September 30, 2021. These costs have been recorded in cost of sales and other income.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

17. Related party transactions (continued):

At September 30, 2021, included in accounts payable and accrued liabilities is a net amount owing to Pollard's iLottery partner of \$1,721 (December 31, 2020 – \$2,027) for its share of profits and reimbursement of operating costs, net of capital investments.

At September 30, 2021, included in restricted cash and accounts payable and accrued liabilities is an amount owing to Pollard's iLottery partner of \$4,792 (December 31, 2020 – \$4,803) for funds relating to contractual performance guarantees.

Key management personnel

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors and the Executive Committee are considered key management personnel.

Key management personnel compensation comprised:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Wages, salaries and benefits	\$ 1,240	\$ 1,050	\$ 3,206	\$ 2,598
Expenses related to defined benefit plans	201	198	602	594
	\$ 1,441	\$ 1,248	\$ 3,808	\$ 3,192

At September 30, 2021, key management personnel of Pollard, as a group, beneficially owned or exercised control or direction over 17,487,438 common shares of Pollard.

18. Segmented information:

Pollard has two reportable segments: Lotteries and charitable gaming, and Diamond Game, which are Pollard's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units, Pollard's Co-CEO's review internal management reports on a monthly basis.

The Lotteries and charitable gaming segment derives its revenues from the manufacture of instant tickets and related products. The Diamond Game segment derives its revenues from the development of game systems and includes the operations of Compliant, acquired on December 30, 2020.

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

18. Segmented information (continued):

Segment information about profits and assets is as follows:

	Three months ended September 30, 2021		
	Lotteries and charitable gaming	Diamond Game and Compliant (1)	Total
Revenues from external customers	\$ 106,873	\$ 10,008	\$ 116,881
Operating costs and expenses	103,256	12,140	115,396
Income (loss) before income taxes	3,617	(2,132)	1,485
Total assets	397,342	64,693	462,035

(1) Included in the 3 month results of Diamond Game is an adjustment to increase the fair value of the contingent consideration liability recognized upon acquisition of Compliant Gaming, LLC, resulting in an increase in operating costs and a decrease in income (loss) before income taxes of \$4,915.

	Three months ended September 30, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 108,944	\$ 7,700	\$ 116,644
Operating costs and expenses	92,639	6,542	99,181
Income before income taxes	16,305	1,158	17,463
Total assets	320,008	60,849	380,857

	Nine months ended September 30, 2021		
	Lotteries and charitable gaming	Diamond Game and Compliant (2)	Total
Revenues from external customers	\$ 315,543	\$ 26,934	\$ 342,477
Operating costs and expenses	290,547	28,042	318,589
Income (loss) before income taxes	24,996	(1,108)	23,888
Total assets	397,342	64,693	462,035

(2) Included in the 9 month results of Diamond Game is an adjustment to increase the fair value of the contingent consideration liability recognized upon acquisition of Compliant Gaming, LLC, resulting in an increase in operating costs and a decrease in income (loss) before income taxes of \$6,005.

	Nine months ended September 30, 2020		
	Lotteries and charitable gaming	Diamond Game	Total
Revenues from external customers	\$ 294,203	\$ 16,196	\$ 310,399
Operating costs and expenses	263,199	17,412	280,611
Income (loss) before income taxes	31,004	(1,216)	29,788
Total assets	320,008	60,849	380,857

Pollard Banknote Limited

Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

19. Financial risk management:

Pollard has exposure to the following risks from its use of financial instruments:

Credit risk
Liquidity risk
Currency risk
Interest rate risk

Pollard's risk management policies are established to identify and analyze the risks, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with Pollard's risk management policies and procedures. The Audit Committee is assisted in its oversight role by Internal Audit, who undertakes regular reviews of risk management controls and utilizes the annual risk assessment process as the basis for the annual internal audit plan.

Credit risk

The following table outlines the details of the aging of Pollard's receivables and the related allowance for losses:

	September 30, 2021	December 31, 2020
Current	\$ 70,531	\$ 61,355
Past due for 1 to 60 days	2,752	2,913
Past due for more than 60 days	2,492	1,946
Less: Allowance for losses	(574)	(177)
	\$ 75,201	\$ 66,037

Liquidity risk

Liquidity risk is the risk that Pollard will not be able to meet its financial obligations as they fall due. Pollard's approach is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The 2021 requirements for capital expenditures, working capital and dividends are expected to be financed from cash flow provided by operating activities and the unused credit facility. Pollard enters into contractual obligations in the normal course of business operations.

Currency risk

Pollard sells a significant portion of its products and services to customers in the United States and to some international customers where sales are denominated in U.S. dollars. In addition, a significant portion of its cost inputs are denominated in U.S. dollars. Pollard also generates revenue in currencies other than the Canadian and U.S. dollar, primarily in Euros.

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Notes to Condensed Consolidated Interim Financial Statements (continued)

(In thousands of Canadian dollars, except where otherwise noted and for share amounts)

(unaudited)

19. Financial risk management (continued):

A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and U.S. dollar would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$32 for the third quarter of 2021 (2020 – \$80) and approximately \$95 for the nine months ended September 30, 2021 (2020 – \$127). A 50 basis point strengthening/weakening in the foreign exchange rate between the Canadian and Euro would decrease/increase the income before income taxes due to changes in operating cashflow by approximately \$14 for the third quarter of 2021 (2020 – \$22) and approximately \$57 for the nine months ended September 30, 2021 (2020 – \$52).

In addition, translation differences arise when foreign currency monetary assets and liabilities are translated at foreign exchange rates that change over time. At September 30, 2021, the amount of financial liabilities denominated in U.S. dollars exceeds the amount of financial assets denominated in U.S. dollars by approximately \$21,557 (December 31, 2020 – \$52,626). A 50 basis point weakening/strengthening in the value of the Canadian dollar relative to the U.S. dollar would result in a decrease/increase in income before taxes of approximately \$108 for the three and nine months ended September 30, 2021 (2020 – \$144).

Pollard utilizes a number of strategies to mitigate its exposure to currency risk. Five manufacturing facilities are located in the U.S. and a significant amount of cost inputs for all production facilities are denominated in U.S. dollars, offsetting a large portion of the U.S. dollar revenue in a natural hedge.

Pollard also uses financial hedges, including foreign currency contracts, to help manage foreign currency risk. At September 30, 2021, Pollard had no outstanding foreign currency contracts.

Interest rate risk

Pollard is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments.

A 50 basis point decrease/increase in interest rates would result in an increase/decrease in income before income taxes of approximately \$145 for the three months ended September 30, 2021 (2020 – \$147) and approximately \$435 for the nine months ended September 30, 2021 (2020 – \$442).